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S E C R E T SECTION 01 OF 03 RANGOON 000859

SIPDIS

STATE FOR EAP/BCLTV, EB  
COMMERCE FOR ITA JEAN KELLY  
TREASURY FOR OASIA JEFF NEIL  
USPACOM FOR FPA

E.O. 12958: DECL: 07/17/2013

TAGS: [EFIN](#) [SNAR](#) [PTER](#) [ECON](#) [ETRD](#) [BM](#)

SUBJECT: BURMA: HUNDI MAKES THE WORLD GO ROUND

REF: A. RANGOON 846 AND PREVIOUS

[1](#)B. RANGOON 30

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

[1](#)1. (S) Summary: In the absence of a reliable method for remitting foreign exchange, the "hundi" system flourishes in Burma. The system is used by nearly everyone in the country who needs to get dollars in or out, from NGOs to military officers. Though hundi in Burma is undoubtedly used to facilitate drug trafficking, we've no evidence to date that it's being used to finance terrorism or anti-American groups in Burma. End summary.

Never Did Trust Those Banks

[1](#)2. (U) Though hundi is best known in Burma as a way to send and receive foreign exchange without dealing with burdensome and extortionate regulations, the system is also fairly well established as a way for buyers and sellers to move kyat around the country. This latter system has been reinvigorated since the decline of the private banking system this year.

[1](#)3. (U) The international hundi system in Burma has been alive and well since the Socialist era (1962-88) when no private banking existed, and locals were not allowed to hold any foreign currency. Burmese working abroad (especially merchant seamen) availed themselves regularly of hundi as they were legally obliged to remit their dollars to family members' accounts at government banks. Account holders could withdraw the money, but only in kyat at the overvalued official 6 kyat/dollar rate.

[1](#)4. (U) The SPDC (nee SLORC) takeover in 1988, ostensibly ushered in a new era of "market reforms," where private companies, organizations, and individuals who earned foreign exchange were allowed to open foreign exchange accounts at the Myanmar Foreign Trade Bank and the Myanmar Investment and Commercial Bank. However, in a typically counterintuitive policy, Burmese nationals were still prohibited from holding foreign exchange. When the Foreign Exchange Certificate (FEC) was introduced in 1993, Burmese nationals were allowed to withdraw their foreign exchange in that form. However, at market rates the FEC is worth about 10-40 percent less than the still proscribed greenback. Furthermore, the government takes an automatic 10 percent tax off the top of any foreign exchange deposits.

How Does it Work?

[1](#)5. (SBU) Dealers in transnational hundi operate in a similar fashion to their American counterparts. A Burmese expatriate or foreign business person in Rangoon will approach a dealer to have their dollars transferred to the dealer's counterpart at the other end of the network. The dealers will arrange with their counterpart some verification method to ensure the right person gets the transferred funds. Money arriving in Burma via hundi is paid out in kyat, at a market-based exchange rate. The settlement of the dealers' accounts of either end of the transaction can occur in many ways, depending on whether the relationship of the dealers is familial or business.

[1](#)6. (SBU) Hundi dealers operating in Burma are widespread and can be part of a large, global, family network or merely a one-man operation. Local brokers tend to work as money changers, gold or gem merchants, traders, or travel agents. Hundi is also run on occasion by individuals out of their homes. The hundi network in Burma is found primarily in the Chinatown section of Rangoon, along the Thai and Chinese borders, and in the country's commercial hub Mandalay. The system is clearly illegal, violating the government's very strict foreign exchange control regulations.

[1](#)7. (SBU) Hundi operators in Burma rely on both direct and hub-and-spoke transfers of cash, depending on how large their particular network is. One of the larger family-based networks has affiliates in Rangoon, Mandalay, Chiang Mai, Singapore, Taiwan, Hong Kong, Kunming, and San Francisco.

Smaller brokers, or those without ties, will use Bangkok or Singapore as hubs to get money forwarded all over the world. Though Burmese migrant workers in the Middle East also use the hundi system, we've heard no allegations of major hundi operators in Rangoon with direct ties to those countries.

18. (SBU) Hundi dealers earn fees in three primary ways, and often in combination. First, they might take a percentage of the transaction -- usually around 5 to 6 percent. A second option is for the dealer to offer a skewed exchange rate and rake in the difference. Finally, the user and dealer might cut some side business deal.

19. (SBU) Businessmen complain that the Burmese transnational hundi system is expensive, and not always run by honest brokers. However, they admit that businesses and individuals have little choice when they need to get cash overseas. Since there is no legal recourse if a dealer doesn't hold up his end of the bargain, hundi dealers are known to abscond from time to time with the money with which they have been entrusted. Rumors that a hundi dealer along the Chinese border had disappeared with millions of dollars worth of Asia Wealth Bank's (AWB) wealth helped spark the initial run on that bank, and the subsequent general banking crisis, in February 2003.

10. (SBU) Dishonesty in the Burmese hundi system is fueled by a number of country-specific ingredients. First is the users' lack of legal alternatives to transfer funds overseas. Second, someone intent on stealing a "shipment" of foreign exchange in cash poor Burma, would need only one large score to ensure a comfortable underground retirement. Finally, Burma's convoluted economic system encourages patronage, corruption, "working the system," and making a quick buck. Thus, making a killing in the underground hundi market makes as much sense to a budding "entrepreneur" as trading in cell phones or presenting fraudulent import invoices.

#### Who's Using Hundi?

11. (C) Over the past decade, the expansion of Burma's international trade, the slow but steady intrickle of international NGOs and small investors, and the continuing disincentives to use the formal system have allowed hundi to flourish. It is impossible to know exactly how much flows in and out through this illegal, and thus very private, system. However, we've heard estimates from knowledgeable sources that from \$600-800 million per year comes into the country, and at least \$600 million streams out. This is notable in contrast to the IMF's CY 2002 estimates of \$470 million in foreign exchange reserves, and \$1 billion in total money supply.

-- Burmese seamen and expatriates use hundi to remit dollars to their economically ravaged families. It's estimated that 50,000 Burmese are working overseas now (15,000 are seamen).

-- Exporters, faced with a 10 percent tax on export earnings, often underinvoice and instruct their overseas buyers to deposit the difference informally into offshore bank accounts (usually in Singapore). These traders then use the hundi system to repatriate this money from their offshore accounts when they need to convert their dollars to kyat.

-- Importers, who must have offsetting export income for all imports, also often underinvoice to maximize the amount they can bring in or to avoid customs duties and other taxes. The importers then settle the difference with their overseas sellers informally using hundi. It's been alleged that the government turns a blind eye to this use of hundi for large corporations involved in priority construction projects.

-- Foreign investors and international NGOs use hundi to get money into the country, evading the 10 percent tax on foreign exchange deposited the government banks. By avoiding the banks, investors and NGOs also evade the requirement of withdrawing their foreign exchange deposits in FEC. Though it would be possible for local Muslim charities to use the hundi system to bring funds into the country, we have no evidence that they are doing so.

-- Wealthy individuals in Burma use hundi to illegally expatriate their hidden dollar assets and/or send money to children living and studying overseas. The student visa function here is complicated as even the wealthiest prospective student's ability to pay for schooling often defies documentation requirements.

#### Guns, Drugs, and Terror?

12. (C) Because the hundi system in Burma is widespread with many small-scale operators, it can be easily used for nefarious purposes. Though authorities keep an eye on the larger hundi dealers, it is very difficult for them to consistently crack down on all dealers. There is also the question of conflict of interest. Military Intelligence (MI) is charged with keeping an eye on the hundi and black market currency exchange dealers (usually the same people) to

enforce currency laws, adjust the dollar/kyat exchange rate, and monitor significant inflows of foreign exchange destined for anyone affiliated with known insurgents or other "destructionists." However, these same MI officials are often making money from this same hundi system, either as operators or by taking bribes from operators. Furthermore, MI, and other government officials to the highest levels, rely on these hundi/currency exchange dealers, just like everyone else, for their services.

13. (C) We have evidence that the hundi system in Burma is used to facilitate the narcotics trade. For example, drug traffickers in Thailand or Hong Kong will send funds via hundi into Burma to pay the local suppliers or producers. However, dealers involved in this type of hundi are more often than not guilty only of a sin of ignorance. Dealers rarely explore the source of the funds flowing through their shops or the backgrounds of their customers.

14. (S) We've no evidence that the hundi system here is being used for external financing of any terrorist network. While the potential is there should such a network emerge in Burma, we think the chances are relatively slim. Though MI's involvement in the hundi system creates a certain amount of moral hazard, and the risk is always present of an individual MI officer taking a bribe to turn the other way on a dangerous transaction, we believe MI's shadowy presence in hundi, and Burmese people's instinctive fear of MI scrutiny, would dissuade most provocateurs from trying to funnel in large sums using hundi. Funding for any potential terrorist activity is much more likely to come in via courier; also an easy proposition considering the porous borders, often outside government control, and notoriously venal customs and regional military officers.

Martinez